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C O N F I D E N T I A L CARACAS 001350

SIPDIS

ENERGY FOR PUMPHREY AND LOCKWOOD
TREASURY FOR OASIA - SIGMORELLI
NSC FOR SHANNON AND BARTON
USCINCSO ALSO FOR POLAD

E.O. 12958: DECL: 04/21/2014
TAGS: [ENRC](#) [PREL](#) [EPET](#) [VE](#)
SUBJECT: CHAVEZ RAISES OIL CUT-OFF AGAIN

REF: A. CARACAS 708

[1](#)B. CARACAS 851

Classified By: Economic Counselor Richard M. Sanders. REASON: 1.5 (B)
AND (D).

Summary

[1](#)1. (C) President Chavez has again raised the threat of stopping oil sales to the U.S., this time in response to President Bush's alleged "intervention." The remarks, made to an Italian newspaper, follow several weeks in which this theme had lain dormant (although he has turned to other forms of U.S-bashing). He suggested that China and Brazil could be alternative markets for Venezuelan petroleum. Meanwhile, Venezuela's latest effort to diversify oil sales away from the U.S. involves a food-for-fuel swap to Argentina. We remain convinced that withholding oil to the U.S. is likely to be technically difficult and financially costly, but clearly this high risk option remains on Chavez's mind. End summary.

Stop Intervening -- Or Else

[1](#)2. (U). In an April 18 interview with newspaper "Liberazione," organ of the Italian Communist Refoundation Party, published in Spanish on the web site of state news agency Venpres (and summarized in an Associated Press story of the same day) Chavez referred at some length to the prospect of Venezuela cutting off oil sales to the U.S. Asked if oil could be a weapon for Venezuela, he said "It's one thing for me to say that I do not want to use it, and another that they make me use it. In (President) Bush's case, he should cease the madness of directly intervening in Venezuela's internal affairs. That would spark a conflict here, and it would be absurd to continue selling oil to them. Not only the U.S. exists. Oil doesn't deteriorate. Oil is sold."

[1](#)3. (U) He went on to add that oil could be sold to Europe and Asia. "Chinese companies have asked that I increase their quota of business with Venezuela. We can't because we are part of the OPEC quota. We sell a million and half barrels per day to the United States. It wouldn't cost much to place it in other places. Brazil imports petroleum. It has to buy it in the Middle East. Why? Because the strategy of the Venezuelan oil company for many years has been linked only to U.S. interests. In the event of conflict, contractual obligations would be broken."

Previous Version

[1](#)3. (U) Chavez previously raised the prospect of cutting off oil sales to the U.S. in a February 29 speech to political supporters (ref A). There, he had said that "not a drop of oil would arrive from Venezuela" if the U.S. were to seize CITGO or otherwise "blockade" Venezuela. He also noted that the U.S. had "plenty of installations" in Venezuela that could be seized in retaliation. Following these highly publicized remarks, he adopted a more conciliatory tone. In a March 9 ceremony, hastily organized at GOV insistence, to mark the award of an important natural gas concession to U.S. major ChevronTexaco (ref B), he stressed Venezuela's reliability as an energy supplier and his recognition of ChevronTexaco as "brothers from the U.S. who come not to attack us nor show a lack of respect but come to unite with us." Since then, until this most recent comment, Chavez and his government had dropped the oil threat although other anti-U.S. themes have in fact become more prominent in his discourse in recent weeks.

14. (U) As the oil threat rises and falls, efforts to diversify Venezuela's energy relations away from the U.S. have received some prominence of late. Venezuela will reportedly provide Argentina with up to 8 million barrels of fuel oil to make up for energy shortages arising from insufficient availability of natural gas, and in exchange will take quantities of Argentine powdered milk, soybean oil, beef and yellow corn. Chavez was quoted in Buenos Aires daily "La Nacion" on April 19, defending the decision in the face of allegations that the high sulfur product was incompatible with Argentine power generators.

Comment

15. (C) Chavez thinks in political and personal terms, not economic. His threats may just be an effort to unnerve or annoy the U.S., but we believe they also reflect his desire to become the Latin American David to the USG Goliath. As we have noted before (ref A), making good on a threat to cut off oil to the U.S. would be very costly to Venezuela, given that its heavy crudes are best marketed to the dedicated refineries in the U.S., and even its more desirable light crudes would need to be sold at steep discounts to conquer new markets. And the U.S. Strategic Petroleum Reserve remains available to counter the effect on world prices that a sudden withdrawal of Venezuelan oil could create. Venezuela has high foreign exchange reserves to mitigate the domestic economic impact of a cut-off in sales to the U.S. Nonetheless, such an oil boycott (in effect a self-imposed repetition of the December 2002-February 2003 general strike) could have sharp internal consequences. These include a crash of the bolivar on the quasi-legal parallel market, which is responsible for half of Venezuela's foreign exchange needs, possible legal efforts by those customers left in the lurch to attach GOV and PDVSA assets abroad, and a generalized collapse in business and consumer confidence leading to an end to the current modest and extremely fragile economic recovery.

16. (C) That said, Chavez clearly has not given up on the idea. By making his comments to a European newspaper, he gives the lie to the assertions of spin-doctors Bernardo Alvarez (GOV ambassador to the U.S.) and Ali Rodriguez (PDVSA President) that such statements are entirely aimed for domestic political consumption and should be ignored by the international community. We note that he has ratcheted up the threat this time and personalized it, raising the prospect of taking the initiative to impose an oil boycott if President Bush doesn't "cease the madness of intervening" as opposed to doing so only if the U.S. seizes CITGO assets or "blockades" Venezuela. At the same time, read in the context of the interview as a whole which rambled through the full range of political and economic issues, Chavez's oil threat did not appear to be particularly immediate or even made with forethought. Refusing to sell oil to the U.S., far and away Venezuela's largest customer, would be at best a high risk throw of the dice, which Chavez is likely to consider seriously only if our bilateral relations have deteriorated considerably more than they have already and he sees such a move as important to his survival in power or to his ambitions to replace Castro as a regional "anti-imperialist" leader.

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